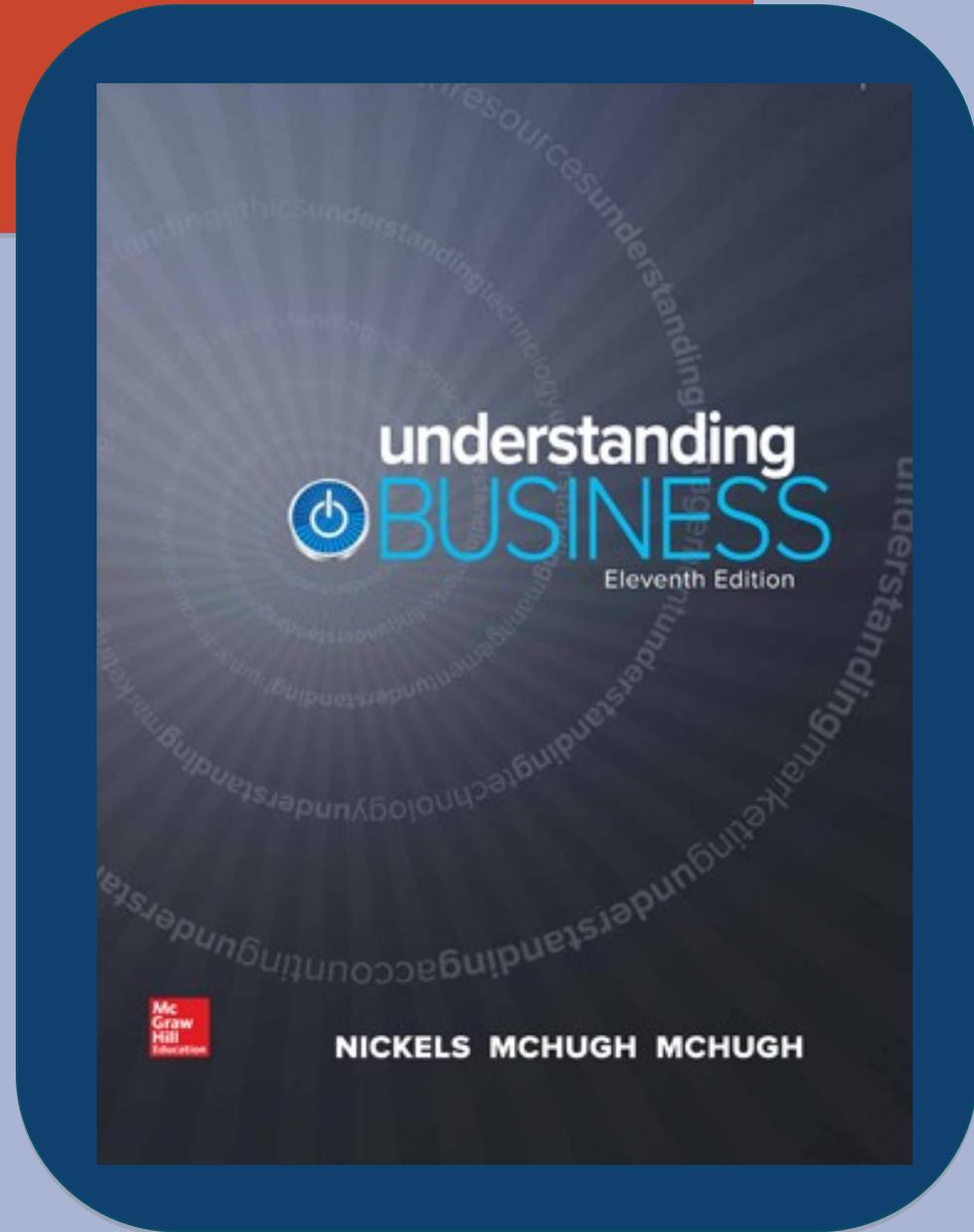


# CHAPTER 3

## Doing Business in Global Markets



# LEARNING OBJECTIVES

1. Discuss the importance of the global market and the roles of comparative advantage and absolute advantage in global trade.
2. Explain the importance of importing and exporting, and understand key terms used in global business.
3. Illustrate the strategies used in reaching global markets and explain the role of multinational corporations.

# LEARNING OBJECTIVE

4. Evaluate the forces that affect trading in global markets.
5. Debate the advantages and disadvantages of trade protectionism.
6. Discuss the changing landscape of the global market and the issue of offshore outsourcing.

# WORLD POPULATION by CONTINENT

LO 3-1



# IMPORTING and EXPORTING

LO 3-1

- **Importing** -- *Buying products from another country.*
- **Exporting** -- *Selling products to another country.*
- The U.S. is the largest importing and the second largest exporting nation in the world.



# TRADING with OTHER NATIONS

LO 3-1

- Countries with abundant natural resources (like Venezuela or Russia) need technological resources from other countries (like Japan).
- Global trade allows countries to produce what they make best and buy what they need from others.
- **Free Trade** -- *The movement of goods and services among nations without political or economic barriers.*

# TRADING with OTHER NATIONS

- **No country is self-sufficient.**
- **Other countries need products that prosperous countries produce.**
- **Natural resources and technological skills are not evenly distributed around the world.**

# COMPARATIVE and ABSOLUTE ADVANTAGE

LO 3-1

- **Comparative Advantage** -- *A country should sell the products it produces most efficiently and buy from other countries the products it cannot produce as efficiently.*
- **Absolute Advantage** -- *A country has a monopoly on producing a specific product or is able to produce it more efficiently than all other countries.*

# GOING GLOBAL with a SMALL BUSINESS

LO 3-2

- Small businesses may be the key in global job growth.
- Only 1% of U.S. small businesses export, yet they account for 30% of total U.S. exports.



# HOW to MEASURE GLOBAL TRADE

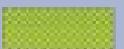
LO 3-2

- **Balance of Trade** -- *The total value of a nation's exports compared to its imports measured over a particular period.*
- **Trade Surplus (Favorable)** -- *When the value of a country's exports is more than that of its imports.*
- **Trade Deficit (Unfavorable)** -- *When the value of a country's exports is less than that of its imports.*

# LARGEST EXPORTING NATIONS and TRADE PARTNERS

LO 3-2



 World's Largest Exporting Nations     Top U.S. Trading Partners     Both

# KEY STRATEGIES for REACHING GLOBAL MARKETS

LO 3-3



# LICENSING

LO 3-3

- **Licensing** -- *When a firm (licensor) provides the right to manufacture its product or use its trademark to a foreign company (licensee) for a fee (royalty).*
- **Licensing can benefit a firm by:**
  - Gaining revenues it wouldn't have otherwise generated.
  - Spending little or no money to produce or market their products.

# EXPORT ASSISTANCE CENTERS and EXPORT TRADING CENTERS

LO 3-3

- EACs provide hands-on exporting assistance and trade-finance support for small and medium-sized businesses that wish to directly export goods and services.
- ETCs help companies engage in *indirect exporting* by:
  - Matching buyers and sellers.
  - Dealing with foreign customs offices, documentation, and conversions.

# FRANCHISING

LO 3-3

- **Franchising** -- *A contractual agreement whereby someone with a good idea for a business sells others the rights to use the name and sell a product/service in a given area.*
- Franchisors need to be careful to adapt their product to the countries they serve.
- Yum! Brands, home of KFC, Taco Bell and Pizza Hut, learned that food preferences differ all around the world.

# CONTRACT MANUFACTURING

LO 3-3

- **Contract Manufacturing** -- *A foreign company produces private-label goods to which a domestic company then attaches its own brand name or trademark. A form of outsourcing.*
- Contract manufacturing can be used to:
  - Allow a company to experiment in a new market without incurring heavy start-up costs such as building a manufacturing plant.
  - Temporarily meet an unexpected increase in orders.

# JOINT VENTURES

LO 3-3

- **Joint Venture** -- *A partnership in which two or more companies join to undertake a major project.*
- The benefits of joint ventures:
  - Shared technology and risk.
  - Shared marketing and management expertise.
  - Entry into markets where foreign companies are often not allowed unless goods are produced locally.

# STRATEGIC ALLIANCES

LO 3-3

- **Strategic Alliance** -- *A long-term partnership between two or more companies established to help each company build competitive market advantages.*
- They don't typically share costs, risks, management or profits.
- Strategic alliances provide broad access to markets, capital and technical expertise.



# FOREIGN DIRECT INVESTMENT

LO 3-3

- **Foreign Direct Investment (FDI)** -- *The buying of permanent property and businesses in foreign nations.*
- **Foreign Subsidiary** -- *A company owned in a foreign country by another company called the parent company.*  
The most common form of FDI.
  - *Primary Advantage:* Parent company maintains complete control over its technology or expertise.
  - *Primary Disadvantage:* Must commit funds and technology within foreign boundaries.



# MULTINATIONAL CORPORATIONS

LO 3-3

- **Multinational Corporation** -- *A company that manufactures and markets products in many different countries and has multinational stock ownership and management.*
- Not all large global businesses are multinational.
- Only firms that have *manufacturing capacity* or some other physical presence in different nations can truly be multinational.

# FORCES AFFECTING GLOBAL TRADE

LO 3-4

- Sociocultural
- Economic and Financial
- Legal and Regulatory
- Physical and Environmental



# CULTURAL DIFFERENCES

LO 3-4

- To be involved in global trade, you must be aware of the cultural differences among nations including:
  - Social Structures
  - Religion
  - Manners
  - Values
  - Language
  - Personal Communication

# LEGAL and REGULATORY FORCES

LO 3-4

- There's no global system of laws.
- Laws may be inconsistent.
- U.S. businesses must follow U.S. laws while conducting global business.
- Organization for Economic Cooperation and Development and Transparency International fight to end corruption and bribery in foreign markets and have had limited success.

# ENVIRONMENTAL FORCES

LO 3-4

- Developing countries have transportation and storage systems that make international distribution difficult or impossible.
- Often, technological capabilities are far from those in the U.S. which make for a tough business environment.



# TRADE PROTECTIONISM

LO 3-5

- **Trade Protectionism** -- *The use of government regulations to limit the import of goods and services.*
- Advocates of protectionism believe it allows domestic producers to survive, grow and produce jobs.



# TARIFFS

LO 3-5

- **Tariffs** -- *Taxes on imports, making imported goods more expensive.*
- Two kinds of tariffs:
  - *Protective* – Raise the retail price of imports so domestic goods are competitively priced.
  - *Revenue* – Raise money for governments.



# IMPORT QUOTAS and EMBARGOS

LO 3-5

- **Import Quota** -- *Limits the number of products in certain categories a nation can import.*
- **Embargo** -- *A complete ban on the import or export of a certain product or the stopping of all trade with a particular country.*
- Political disagreements can lead to embargos, like the U.S. embargos against Cuba, Iran and North Korea.

# COMMON MARKETS

LO 3-5

- **Common Market** -- *A regional group of countries with a common external tariff, no internal tariffs and coordinated laws to facilitate exchange among members.*
- The [European Union \(EU\)](#), [Mercosur](#), the [ASEAN](#) and the [COMESA](#) are common markets.



# EU MEMBERS

LO 3-5



# OUTSOURCING

LO 3-6

- **Outsourcing** -- *Process by which a firm contracts with other companies to do some or all of its functions.*
- U.S. firms have outsourced payroll functions, accounting and manufacturing for years.
- With the growth of global markets, companies have been shifting to *offshore outsourcing* – outsourcing with other countries.



Photo Credit: Vitor Lima

# PLAN for YOUR GLOBAL CAREER

LO 3-6

- Study foreign languages.
- Learn about foreign cultures.
- Take global business courses.

